

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0378-01
Bill No.: SB 80
Subject: Taxation & Revenue—Property; County Government; Cities, Towns & Villages
Type: Original
Date: January 3, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Blind Pension *	\$0	\$0	(Unknown)
Total Estimated Net Effect on Other State Funds *	\$0	\$0	(Unknown)

* expected to exceed \$100,000.

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government *	(Unknown)	(Unknown)	(Unknown)

* expected to exceed \$100,000.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Tax Commission (TAX)** assume a total assessed valuation for 2002 of 68 billion dollars, a 6 percent increase in assessed valuation for 2003 resulting in 4 billion dollars additional revenues, and a statewide average six dollar per hundred dollars in assessed valuation tax rate. The estimated 4 billion dollar increase in assessed valuation times the average six dollar per hundred tax rate would provide 240 million dollars in potential increased revenues for local subdivisions. Assuming 5 percent of properties change ownership each year, resulting in a 15% increase in value for those properties. Acquisition based assessment would result the loss of an estimated 240 million dollars in potential revenue less a 40 million increase in revenues from acquisition based reassessment, for an estimated net 200 million dollar loss for local governments.

Officials from the **State Tax Commission** also assume significant future revenue losses for political subdivisions, and reduced revenues for the Blind Pension fund.

ASSUMPTION (continued)

Officials from the **Cole County Assessor's Office** assume that 7%-9.5% of properties transfer in any given 2 year reassessment period in Cole County. This means that the value on 90.5%-93% of the properties would not change during a reassessment in Cole County. There would be no effect in 2004 as it is not a reassessment year and new construction will still be added. In 2005, assuming an 8% growth (4% per year) in the reassessment cycle, the loss in tax revenue to all the taxing jurisdictions in Cole County would be approximately \$3,153,600 under this bill. There would be no effect in 2006 as it is not a reassessment year and new construction will still be added.

Officials from the **Cole County Assessor's Office** assume at least the same amount, if not more than the amount that was lost in 2005, or \$3,153,600, would be lost to the taxing jurisdictions in every successive two year cycle.

Officials from the **Cole County Assessor's Office** assume that programming changes would be required for the Assessor's computer software, estimated at \$5000 in the year 2004.

Oversight assumes it is not possible to estimate the magnitude of tax losses to political subdivisions. Actual tax collections for any individual political subdivision would be subject to overall changes in total assessed valuation, and to the effects of other statutory revenue restraints. The effects of the other revenue restraints would vary from subdivision to subdivision. This proposal would prohibit reassessment of previously assessed real property and improvements until a transfer of ownership occurs. Reducing the increase in assessed valuation on individual parcels would in turn reduce the tax rate rollback required, primarily shifting this tax burden to other taxpayers. Oversight assumes that losses to political subdivisions from this provision, as compared to current law would be expected to exceed \$100,000 per year. Oversight assumes the first reductions would occur in 2005 tax collections collected in FY 2006.

Oversight assumes there would be additional unknown costs to County Assessors to administer the proposal.

Oversight assumes there would also be losses to the Blind Pension fund of a little more than ½ of 1% of the losses to political subdivisions.

ASSUMPTION (continued)

Officials from the **Department of Elementary and Secondary Education** noted that the proposal would prohibit reassessment of previously assessed real property and improvements until a transfer of ownership occurs. The reduced increase in total assessed valuation may result in no reduction in property tax rates that otherwise might occur per Article X of the Constitution.

While the proposal does not reference the state school aid foundation formula, non-hold harmless districts could potentially recover the lost local revenues through the state aid formula if the appropriation for the formula would be sufficient to provide a proration factor not less than 1.00. The proposal would increase the cost to fully fund the state foundation formula. Hold harmless districts would experience a decrease in local revenue unless the General Assembly appropriates sufficient funds to compensate for the lost revenue.

Oversight assumes the Foundation Formula issues, if any, would be addressed through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (6 Mo.)	FY 2005	FY 2006
BLIND PENSION FUND			
<u>Revenue reduction</u>			
Reduced tax collections *	<u>\$0</u>	<u>\$0</u>	<u>(Unknown)</u>
NET EFFECT ON BLIND PENSION FUND *	<u>\$0</u>	<u>\$0</u>	<u>(Unknown)</u>
* expected to exceed \$100,000.			

FISCAL IMPACT - Local Government

FY 2004
(6 Mo.)

FY 2005

FY 2006

POLITICAL SUBDIVISIONS

Revenue reduction

Reduced tax collections *	\$0	\$0	(Unknown)
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Cost to counties

Additional administrative cost to county assessor. *	(Unknown)	(Unknown)	(Unknown)
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NET EFFECT ON POLITICAL SUBDIVISIONS *

<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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* expected to exceed \$100,000.

FISCAL IMPACT - Small Business

Acquisition based assessment could negatively impact sales of real property, creating a fiscal impact to small businesses engaged in real estate sales and small businesses which own real estate.

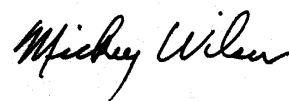
DESCRIPTION

This proposal would prohibit reassessment of previously assessed real property and improvements until a transfer of ownership occurs. The proposal would be effective January 1, 2004.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

State Tax Commission
Cole County Assessor
Department of Elementary and Secondary Education



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